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Startups

I. Introduction

As the industry revolutionizes and technology continually upgrades, new types of businesses and business models emerge in the market that disrupt the traditional economy. These new waves, which include Startups, focus on the utilization of technologies in addressing economic and social problems.

Generally, startups are ventures led by founder/s with an idea, invention, or research that have potential for significant business opportunity and impact. Worldwide, the startup sector has created significant and sustaining companies that generate high-value jobs and drive economic growth (Startup Commons, n.d.).

Startups undergo an innovation process, from idea generation, validation of initial problem/solution fit, to scaling and sustaining business. Not having a traditional business model, startups are often classified by their development phases. Adopting the three-stage classification of the Startup Commons,[1] the phases are Formation (characterized by ideating and concepting), Validation (characterized by committing and validating), and Growth (characterized by scaling and establishing), with each sub-phase specifically described in Figure 1.

Figure 1. Startup Development Phases

Source: Startup Commons

[1] *Startup Commons, founded in 2009 in San Francisco California, is a globally neutral company developing startup ecosystem technology, shared knowledge and open data with a focus on making startup support and advisory more effective, cost efficient and transparent.*

Another way of classifying startups is through their funding stages. The funding rounds for startups are composed of pre-seed, seed, and series funding stage. As Foxmont Capital Partners (2020) briefly described each round, the pre-seed funding is considered the earliest funding stage of a new startup and majority of the investors are the founders' personal circles of family and friends. At this stage, the founders are still initiating business operations and getting the ball rolling. This is followed by the seed funding stage considered as the first official equity funding stage of a business, where funding comes from angel investors and more formal organizations such as accelerators, incubators, and venture capital firms. Following the seed stage are the series stages classified into A, B and C.

Startup Ecosystems are then formed as support and network for this community. Startup ecosystems link industry forces to enable governments, communities, foundations, entrepreneurs, and small businesses to foster value creation and economic growth. Hence, there is a need to develop and support the startup ecosystem to facilitate the growth of innovative ideas, technologies, and emerging high-impact businesses.

II. Philippine Startup Ecosystem

In the Philippines, the startup ecosystem can be described as fairly young compared to other countries, but it is rapidly growing and achieving milestones. It has gone a long way in terms of its value, deals made, acquisitions, number of local startups, and stakeholders understanding the potential of developing the startup ecosystem, as well as support from the Philippine government.

The Philippine startup ecosystem was previously valued at USD 1.6 billion (Startup Genome, 2020). However, Global Startup Ecosystem Report 2021 of Startup Genome reveals that the country's ecosystem value[2] is now at USD 584 million. The drastic change in value was driven by Revolution Precrafted as the company was excluded in the list for having no deal after 2017.

Nonetheless, since 2018, the country's startup ecosystem has remained among the top activation phase ecosystems, together with Taipei, Busan, Calgary, and Frankfurt. Manila is ranked 36th globally in the inaugural ranking of the world's top 100 emerging ecosystems in 2020.

In the 2021 Global Startup Ranking of Startup Blink, the Philippines ranked 52nd out of the top 100 countries, one notch higher than in 2020. Manila led among the Philippine cities and ranked 87th globally, and ranks among the 20 best startup ecosystems in the Asia Pacific region. Cebu City ranked 268th globally. Followed by Cagayan de Oro jumping 87 spots to 493rd globally. New Philippine cities also joined in the rankings with Davao City at 786th and Baguio at 944th.

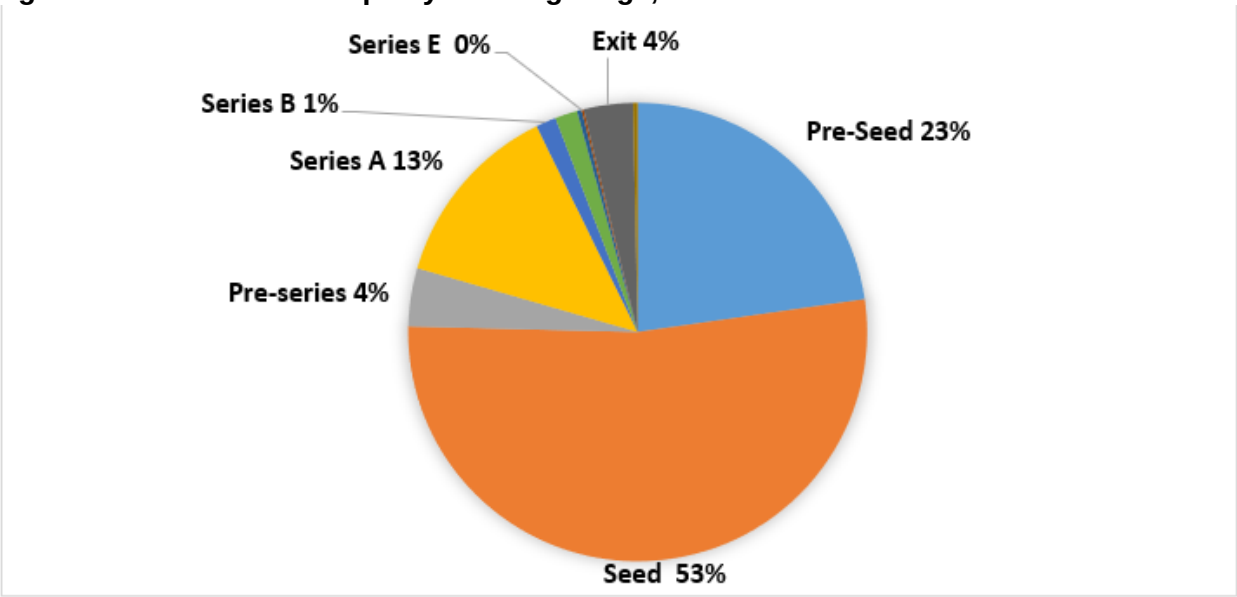
There is also a growing number of stakeholders recognizing the potential of developing the startup ecosystem with the country having more than 200 co-working spaces, 50 angel investors, 40 venture capitalists, and 35 incubators and accelerators.

A snapshot of the local startup community shows that the country now houses over 700 tech startups, with founders that are young, tech-savvy, highly-skilled, and innovative individuals brimming with potential. The majority of these startups are in the scaling-up stage followed by those in the validation stage (31%), establishing stage (18%), and only a few startups are in the ideating stage (5%). Sector-wise, a lot of Philippine startups are involved in the high-impact sectors, such as financial technology (fintech), health, and education. In terms of funding

[2] *Ecosystem Value is a measure of economic value, which is calculated based on the value of exits and startup valuations for a 2.5-year period. The relevant timeframe for the GSER 2021 includes all deals that happened in 2018, 2019, and first half of 2020.*

stage, Figure 2 shows that 53% of the Philippine startups are at seed level funding, while 4% have already exited.

Figure 2. Number of Startups by Funding Stage, as of June 2021

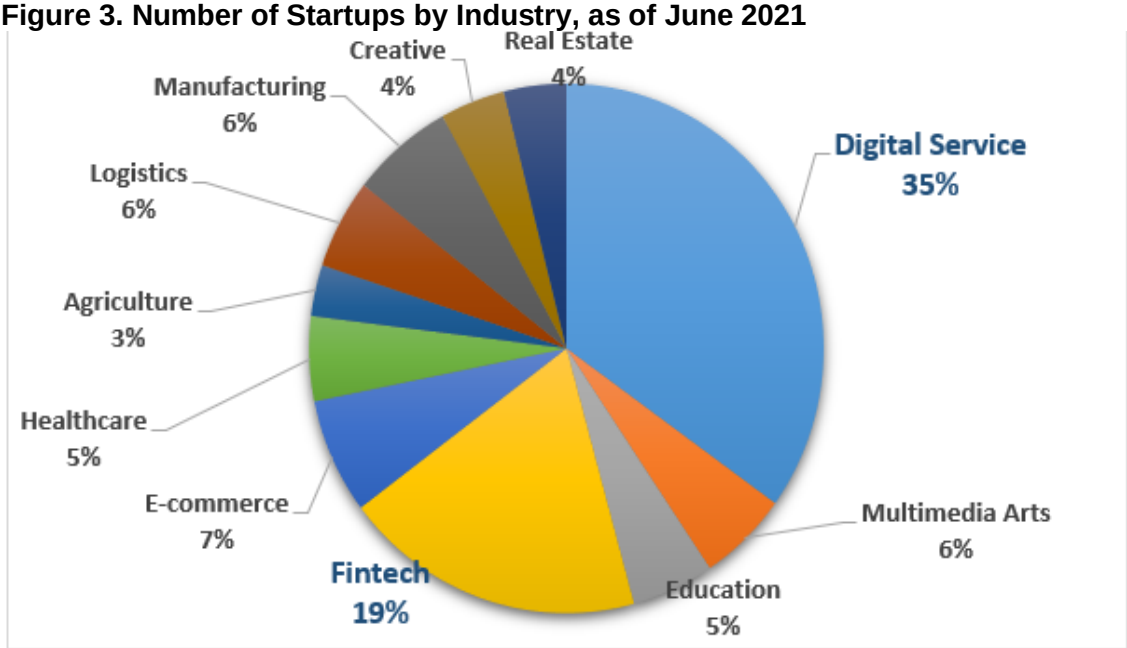


Source: DTI-OUCIG Database, 2021

Philippine startups are engaged in various areas, including technology, retail, financial services, telecommunications, media and entertainment, transportation, healthcare, energy, consumer products, and manufacturing. There are also startups involved in the high-impact industries, such as financial technology (fintech), health, and education.

Figure 4 shows that around 35% are engaged in digital services, followed closely by Fintech (19%) and E-commerce (7%) industries, respectively. Startups under the digital services industry offer IT-enabled services such as web development, web design, Software as a Service (SaaS), and big data and analytical services.

Figure 3. Number of Startups by Industry, as of June 2021



Source: DTI-OUCIG Database, 2021

The 2020 GSER highlighted Fintech and E-Commerce as two of the sub-sector strengths of the Manila Startup Ecosystem. The 2020 Philippine Startup Survey by the PWC, on the other hand, revealed that investors have identified fintech, medical and healthcare technology, and education technology as priority industries of investments for the next three years.

As an archipelagic country, different startup ecosystems were also formed in other regions and provinces around the country. Cities like Cebu, Legazpi, Bohol, and Naga also exhibit growth potential in their respective startup economies.

Since 2016, the DTI and the QBO Innovation Hub have been conducting startup ecosystem mapping exercises[3] in selected regions to identify the areas that need to be improved towards the competitiveness of the regions. Using the same methodology, the DICT and the Ideaspace Foundation also conducted a similar startup mapping in some of the country's provinces such as Pampanga, Baguio City, Iloilo City, and Cagayan de Oro City in 2018 and was updated by QBO Innovation Hub in 2020. The results revealed the pool of talent produced by the universities within the region, and these talents could have the potential to transfer innovation into a scalable product. Thus, there is an unprecedented countrywide effort to strengthen and promote startups in the regions.

Table 1. Startup Ecosystems in the Regions

Region	Ecosystem	Rank*	Stage**	Notable Startups
3	Baguio City	944	Nascent	Spare.ph, IOL Inc., Session Groceries, Vivita Philippines
3	Clark	--	Nascent	--
4	Palawan	--	Nascent	ITera Hub
4	Batangas	--	Foundational	Kezar
5	Albay	--	Nascent with some elements of Foundational	CollabUX Web Solutions, FAVOREATS, Happy Tongits Equinox Virtual Solutions, Laprtech Solutions, and Pacific Blue IT
5	Naga City	--	Nascent (can almost be considered as Foundational)	NUEVA and Pandalivery
6	Iloilo City	--	Foundational	Vesl
7	Cebu City	268	Foundational	Mataverse, REVAStaff.com Payruler, Symph, RideHero, Xeleqt Technologies W.L.L.
7	Bohol	--	Nascent	--
10	Iligan City	--	Nascent	--
10	Cagayan De Oro City	493	Nascent	Wela School System, MAN Pharma, Offodie
11	Davao City	786	--	Traxion, Ingenuity Global Consulting Inc., Trending PH
13	Butuan City	--	Nascent	Komspec

** Rank is based on Startup Blink. It ranks ecosystems of 1000 cities and 100 counries across the globe.*
***Stage is based on the results of Ecosystem Mapping of DTI and QBO Innovation Hub; and DICT and IdeaSpace Foundation*
--No data available

[3] The cities were categorized based on Techstars' 7 Stages of Startup Communities: Nascent, Foundational, Accelerating, Established, High Functioning, Progressive, and Aspirational (Startup Angels, 2016).

III. Challenges of Philippine Startup Ecosystem

While the concern with starting a business is a persistent and common one among enterprises in the country, startups' experience differs from other MSMEs because of the nature of their business. Different issues or barriers to growth are usually experienced by the startups, specifically in the most difficult stage in their lifecycle, i.e., the "Valley of Death.[4]

Table 2. Challenges of Philippine Startup Ecosystem

Lack of Entrepreneurial Mindset and Brain Drain	• Founders not expected to have business background • Challenge in finding the right talent and retention
Lack of Industry Support and Access to Relevant Mentors and Network	• Lack of experienced mentors • Lack of support in early stage startups and difficulties in institutional support in latter stages
Filipino Mentality and Risk Mentality	• Traditional mentality towards career aspirations • Risk averseness of Filipino startups
Lack of Financial Resources and Investor Relationship	• Lack the necessary financial resources and support for startups and startup enablers • Lack in external funding • Conflicts between the founder/s and investors in terms of organizational decisions
Market Conditions and Regulatory Constraints	• Startups are subjected to the same regulatory requirements as traditional businesses • Regulatory agencies have different level of knowledge on startups and technopreneurship
Weak Digital Infrastructure	• Weak digital infrastructure in the country, which leads to a wide digital divide between those that have access to a reliable internet connection • Use of digital technologies in the Philippines remains below potential because of digital financial literacy, availability of digital infrastructure in remote and rural areas, affordability of internet services, and quality of internet infrastructure.

IV. Republic Act No. 11337 or the Innovative Startup Act

The Innovative Startup Act, signed into law on April 26, 2019, aims to strengthen, promote, and develop an innovative and entrepreneurial ecosystem and culture in the Philippines. It seeks to remove the constraints to and encourage the establishment and growth of startups and strengthen the ecosystem to foster an innovative entrepreneurial culture in the country. The DTI, DOST, and DICT, as the lead host agencies mandated by the law, were at the forefront in the development of its Implementing Rules and Regulations (IRR). A Steering Committee was formed led by these three agencies to monitor the implementation and manage the Philippine Startup Development Program (PSDP).

The PSDP will lay down the programs, benefits, and incentives for startups and startup enablers. It also provides grants, subsidies, venture funds, and support to the participation of startup and startup enablers to local and international events, among others. Specific to DTI, and in coordination with the National Development Company, a DTI attached agency, the DTI will start providing equity financing to qualified innovative startups, which have high-growth potential through the startup venture fund. The funding is intended to support the startups'

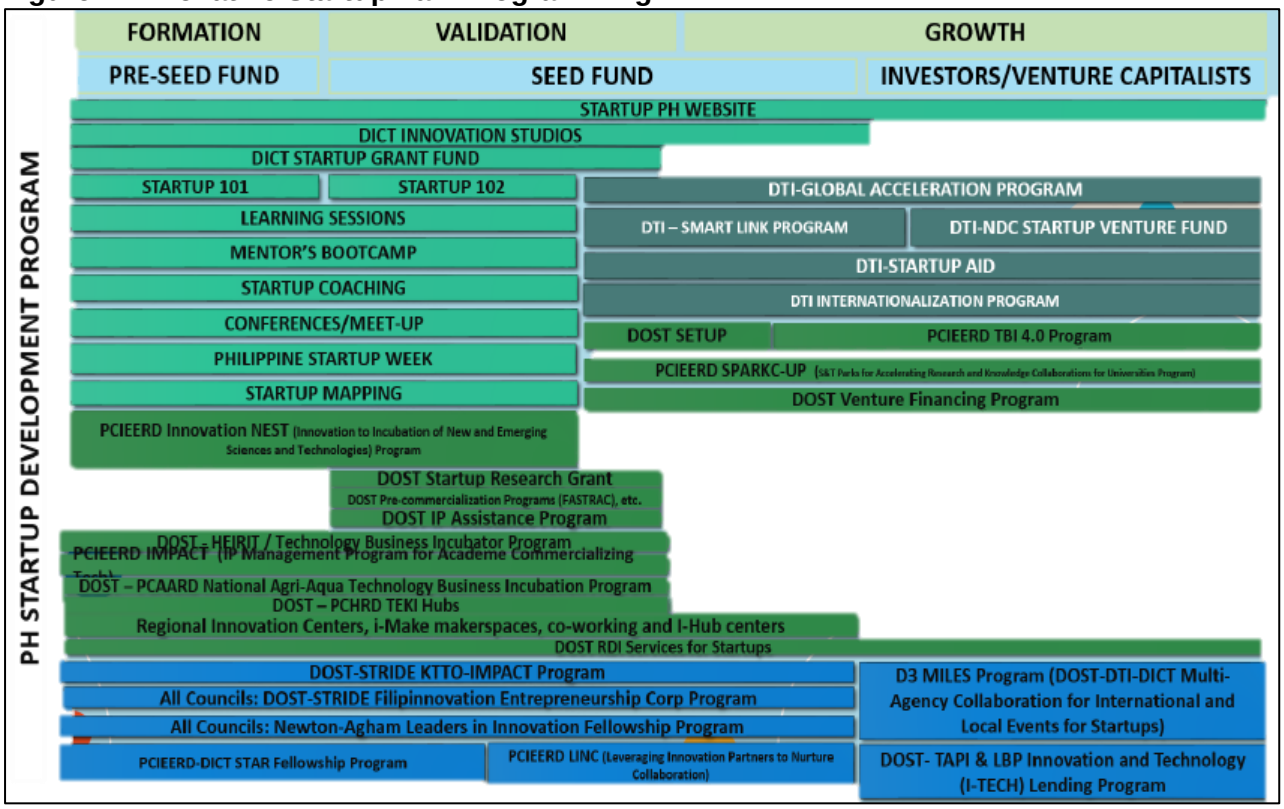
[4] Valley of Death describes the period in the life of a startup in which it has begun operations but has not yet generated revenue (Fernando, 2019).

product research and development, plant and/or facility's establishment/improvement/ expansion, and product manufacturing, sales, and marketing.

The law also allows for the issuance of a startup visa and mandates the expedited processing of necessary documents such as visa application, business registration, and IP registration and protection. It enables the establishments of startup business one-stop-shop, startup website, and startup ecozones.

With the Innovative Startup Act, the three lead agencies harmonize its program offerings for startups and startup enablers through the PSDP. Figure 5 layouts the startup development stages vis-a-vis the programs to be offered and agency assigned. This framework will guide the startup stakeholders in reaching out to appropriate government agencies for support. Most programs offered by DICT are targeted to startups in the formation stage, DOST's are in the validation stage, and DTI's are to those in the growth stage.

Figure 4. innovative Startup Law Programming



Source: DTI, DICT, DOST

V. Conclusion and Ways Forward

Supporting the vibrant Philippine startup ecosystem will be beneficial and essential for the Philippine economy. Not only can it help solve current and future problems, but it can also contribute to the economy's growth. Currently, the ecosystem has a low attraction rate, which is normal in its current phase - Activation Phase, hence, the government should intensify its efforts in increasing the ecosystem's global attraction.

There is an increasing opportunity for the local startups due to the Philippines' "home-grown" entrepreneurship. Interestingly, the global 2020 PWC Philippine Startup survey results showed that 86% of the startup respondents identified that founders should have entrepreneurship abilities as their top skills. Local entrepreneurship should, therefore, be strengthened to intensify global attraction.

The Startup Genome Report stressed that one of the key factors in multiplying the number of startups in the ecosystem is cultural exchange, through engagements with universities. It should be noted that the Philippines is promoting startups through a tripartite partnership where the government, academe, and industry work hand-in-hand to achieve common goals for startup communities.

Further, the following recommendations were drawn from DTI interview with ISA lead agencies, startups and startup enablers:

- **Deepen** and **strengthen** the **collaborations** between and among national and local government, industry, startups, and other innovation agents
- **Harmonize** the **startup programs** of government agencies to avoid duplication and confusion among stakeholders
- **Incentivize** early-stage startups, startup mentors, and investors (e.g., tax holidays or tax credit)
- **Capacitate** MSMEs to understand the value and benefit of **digital transformation**
- Provide **financial packages** and **technical assistance** support to MSMEs, and indirectly startups would benefit because MSMEs would be able to use startup products
- Develop a **Startup Roadmap** which will include short-, medium-, and long- term plans for startups, vision, mission, goals, strategies, key performance indicators (KPIs), and communication plans, among others.

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